

**BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF  
SOUTH CAROLINA**

**Docket No. 2000-487-E**

**TESTIMONY OF RAY L. RATHEAL  
On behalf of Columbia Energy LLC**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Ray L. Ratheal. My business address is Eastman Chemical Company, 200 South Wilcox, Kingsport, TN 37662.

**Q. PLEASE DESCRIBE EASTMAN CHEMICAL COMPANY**

A. Eastman Chemical Company ("Eastman") is a publicly owned company organized and existing under the laws of the State of Delaware, with its corporate headquarters in Kingsport, TN. Columbia Operations ("Carolina Eastman") located in Calhoun and Lexington Counties in South Carolina, is a division of Eastman.

**Q. PLEASE STATE YOUR POSITION WITH EASTMAN.**

A. I am the energy procurement manager for Eastman Chemical Company.

**Q. PLEASE STATE YOUR GENERAL DUTIES AND RESPONSIBILITIES.**

A. I am responsible for the procurement of energy (coal, natural gas, electricity, fuel oil, and steam) for Eastman.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. My testimony supports the application of Columbia Energy LLC for certification of the Columbia Energy Center which it intends to construct on <sup>Carolina</sup> ~~Columbia~~ Eastman's site in Calhoun County, South Carolina, to provide thermal energy (heat), and eventually electric power and energy when provided by law, to Carolina Eastman's manufacturing plant.

**Q. PLEASE DESCRIBE BRIEFLY CAROLINA EASTMAN'S MANUFACTURING PLANT AND ITS OPERATIONS.**

A. Carolina Eastman is a chemical and plastics manufacturing facility. The primary product produced at the facility is a plastic, polyethylene terephthalate (PET). PET is used in a variety of consumer products, including bottles, packaging, and carpet. The PET market

is extremely competitive, and Carolina Eastman is constantly searching for ways to operate more efficiently and lower production costs.

**Q. WHAT ENERGY PRODUCTION FACILITIES DOES CAROLINA EASTMAN PRESENTLY UTILIZE?**

- A. Currently, we self-generate a substantial amount of the thermal energy in the form of steam required for our manufacturing processes from coal-fired boilers. We receive coal by rail and truck and we maintain a storage site for approximately 30 days' supply of coal. Our other major energy consumption facilities consist of a heat transfer media system known as the HTM Heater System. The HTM System is also used to supply thermal energy to portions of our manufacturing process and it operates on natural gas, using heavy oil as a back-up for all but one of the heaters, which uses lighter oil as its back-up fuel.

**Q. WHAT WERE THE OBJECTIVES IN SEEKING ALTERNATIVE ENERGY OPTIONS FOR CAROLINA EASTMAN?**

- A. We were seeking an energy option that would allow us to displace our present coal-fired boilers under a long-term alternative. We sought to decrease our operating costs, minimize plant assets and concentrate more effectively on our core business functions and products by "outsourcing" our energy operations. In that manner, Carolina Eastman would enhance its competitive position in the market for our products. In addition, we wanted to utilize an alternative that was more "environmentally friendly" than our present energy production facilities.

**Q. HOW DID CAROLINA EASTMAN GO ABOUT ITS REVIEW OF AVAILABLE ALTERNATIVES?**

- A. Essentially, we selected a group of potential energy suppliers, and after binding them under secrecy agreements to protect our proprietary and confidential business and operating information, distributed a request for proposals for energy supply to the selected group. The RFP described our current and anticipated energy requirements, described our existing facilities and infrastructure and provided the technical information to permit potential bidders to be responsive to the RFP. We encouraged potential bidders to be creative in designing alternatives to meet our energy needs. Eventually, we selected SkyGen Energy LLC, an affiliate of Columbia Energy LLC, as the most responsive bidder with the most economically attractive proposal. SCANA was also invited to bid, but their bid was not selected.

**Q. PLEASE CONTINUE.**

- A. After extensive and detailed negotiations, assisted by legal counsel, we reached an agreement with SkyGen in the form of the Energy Services Agreement under which Columbia Energy will be responsible for supplying thermal energy for our processes, and, eventually electric power and energy when appropriate (should future regulation

allow). The Energy Services Agreement contains sensitive operating information and commercial terms that Eastman considers to be confidential and proprietary. We also agreed to lease the property on which the Columbia Energy Center will be constructed to supply our energy requirements. The Energy Services Agreement will enable Carolina Eastman to achieve the objectives we identified at the beginning of our review of energy options. In addition, as the purchaser of thermal energy, and ultimately electric power and energy, we are satisfied that the Energy Services Agreement will adequately protect our interests so that we are assured that we will have a reliable and safe source of energy at prices which will enable us to remain competitive in the marketplace.

We support Columbia Energy's application for certification of the Columbia Energy Center and for approval of the Energy Services Agreement.

**Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

**A. Yes.**